

## Message Text

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PAGE 01 CAIRO 01059 111443Z  
ACTION NEA-10

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05  
TRSE-00 SS-15 STR-06 OMB-01 CEA-01 CIAE-00  
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03  
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PRS-01 DOE-11 SOE-02 IGA-02 ABF-01 /107 W  
-----117383 112057Z /41

R 111436Z JAN 78  
FM AMEMBASSY CAIRO  
TO SECSTATE WASHDC 4077

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E.O. 11652: N/A  
TAGS: EFIN, EINV, EG  
SUBJ: COMMENTS OF MINFIN UNDERSECRETARY ON 1978 STATE  
- BUDGET

REF: CAIRO 615

1. ON JANUARY 10 EMBOFF CALLED ON MINFIN UNDERSECRETARY FOR BUDGET MOHAMED ABDOU TO DISCUSS VARIOUS ASPECTS OF 1978 STATE BUDGET. IN ADDRESSING DOUBLE COUNTING PROBLEM THAT HAS CONTRIBUTED TO CONFUSION OVER BUDGET PROCESS IN PAST, ABDOU NOTED THIS PRIMARILY RESULT OF INTERNAL TRANSFERS TO PUBLIC SECTOR AUTHORITIES FROM MINISTRIES. DUE TO THIS PROCESS CERTAIN ITEMS ARE ADDED IN TWICE, ONCE IN MINISTERIAL BUDGET AND AGAIN IN PUBLIC SECTOR AUTHORITY ACCOUNTING. ABDOU SAID RULE OF THUMB IS THAT PRACTICE ARTIFICIALLY INFLATES BUDGET TOTAL BY ABOUT 25 PERCENT. THUS OF 1978 LE 8883 MILLION TOTAL (REF) NET EXPENDITURES ARE APPROXIMATELY LE 6400 MILLION. BUDGET, ACCORDING SOURCE, IS CALCULATED THROUGHOUT AT OFFICIAL RATE OF EXCHANGE. COMMENTING FURTHER ON EXCHANGE RATE CONFUSION, ABDOU POINTED OUT THAT MINFIN/MINECON HAD

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PAGE 02 CAIRO 01059 111443Z

INTRODUCED NEW UNIFORM PROCEDURE IN 1978 IN HANDLING FOREIGN EXCHANGE AND INVESTMENT BUDGET CALCULATIONS. NOW EVERY ITEM REQUIRING FOREIGN EXCHANGE IS ALLOCATED AT PARALLEL RATE AS WELL. THROUGH THIS BUDGET OFFICIALS HAVE MADE EFFORT TO ELIMINATE HIDDEN SUBSIDIES RESULTING FROM EXCHANGE RATE DIFFERENCES.

2. ON INVESTMENT BUDGET ABDOU NOTED THAT TWO FIGURES MAY BE USED: LE 2450.6 MILLION WHICH IS PARALLEL RATE FIGURE EQUIVALENT TO LE 1372 MILLION AT OFFICIAL RATE (LE 1 EQUALS \$2.56 AT OFFICIAL RATE; \$1.43 AT PARALLEL RATE). INVESTMENT BUDGET IS LE 390 MILLION ABOVE 1977 PROGRAM. ABDOU CONTENDS THIS IS MERELY KEEPING PACE WITH ECONOMIC EXPANSION AND NOT NECESSARILY INFLATIONARY NOR OVERLY AMBITIOUS. INVESTMENT PROGRAM ALSO CONFORMS TO PROGRAM OUTLINED IN 1978-82 FIVE-YEAR PLAN.

3. ON DEFICIT ABDOU SAID INTERNAL DOMESTIC DEFICIT OF LE 322 MILLION WILL BE FINANCED BY LOCAL EGYPTIAN BANKING SECTOR. THOUGH HE CONCEDED ANY BUDGETARY DEFICIT IS BY DEFINITION INFLATIONARY, ABDOU POINTED OUT THIS IS ROUGHLY LE 80 MILLION UNDER 1977 PROJECTED DEFICIT AND EVEN GREATER DIFFERENCE EXISTS BETWEEN ACTUAL 1977 DOMESTIC DEFICIT WHICH ABDOU ESTIMATES AT LE 480 MILLION.

4. ON THE FOREIGN EXCHANGE BUDGET ABDOU ADMITS GAP WILL STILL BE HIGH (HE ESTIMATED \$2 BILLION) BUT STRESSED THAT PRESENT PROJECTIONS ARE STILL SUBSTANTIALLY LOWER THAN 1977 FIGURE OF \$3.2 BILLION.

5. COMMENT: ABOVE MAY BE OF USE IN INTERPRETING STATE BUDGET TOTALS REPORTED REFTEL. ABDOU'S COMMENTS PARA 1 SERVE TO CLARIFY CERTAIN PROBLEMS WITH BUDGETING PROCEDURE LIMITED OFFICIAL USE

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PAGE 03 CAIRO 01059 111443Z

AND HIGHLIGHT REMEDIAL STEPS GOE HAS TAKEN TO REMOVE INDIRECT SUBSIDIES DUE TO EXCHANGE RATES. FROM THIS PERSPECTIVE BUDGET CANNOT BE CONSTRUED AS HIGHLY INFLATIONARY. HOWEVER, CONTINUED GOE RELIANCE ON LOCAL BANKING SECTOR (PARA 3) CAN ONLY LIMIT FINANCIAL RESOURCES AVAILABLE TO PRIVATE SECTOR AND FURTHER STYMIE PRIVATE SECTOR EXPANSION. EILTS

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## Message Attributes

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**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** n/a  
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**Disposition Approved on Date:**  
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**Disposition Date:** 20 Mar 2014  
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